

Message Text

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20

ACTION NEA-16

INFO OCT-01 EUR-25 EA-11 ISO-00 SP-03 AID-20 EB-11 NSC-07

RSC-01 CIEP-02 TRSE-00 SS-20 STR-08 OMB-01 CEA-02

CIAE-00 COME-00 FRB-03 INR-11 NSAE-00 XMB-07 OPIC-12

LAB-06 SIL-01 PM-07 DODE-00 PA-04 USIA-15 PRS-01 L-03

H-03 DRC-01 AGR-20 SWF-02 IO-14 CU-05 AF-10 FEAE-00

INT-08 SCI-06 IGA-02 ARA-16 /285 W

----- 073279

R 200405Z JUL 74

FM AMEMBASSY DACCA

TO SECSTATE WASHDC 3732

INFO AMCONSUL CALCUTTA

AMEMBASSY COLOMBO

AMEMBASSY ISLAMABAD

AMEMBASSY KATHMANDU

AMEMBASSY LONDON

AMEMBASSY NEW DELHI

AMEMBASSY RANGOON

CINCPAC HONOLULU HI

C O N F I D E N T I A L SECTION TWO OF THREE DACCA 3266

CINCPAC FOR POLAD

THAT LARGE SCALE CORRUPTION IS RAMPANT. JULY 10 HE ORDERED THE ARMY TO SEAL THE BORDERS TO PREVENT SMUGGLING. HE ALSO REMOVED THE CHAIRMEN OF FOUR GOVERNMENT CORPORATIONS IN ORDER TO CLEAN UP HIS ADMINISTRATION. NO PROMINENT AWAMI LEAGUERS HAVE BEEN AFFECTED BY ANY OF THESE ACTIONS.

4. ECONOMIC DEVELOPMENTS. STAGNATION IN THE ECONOMY CONTINUED LAST QUARTER, AS ACKNOWLEDGED BY FINANCE MINISTER IN HIS ANNUAL BUDGET MESSAGE (REFS F, G).

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INDUSTRIAL PRODUCTION DID NOT INCREASE. IN AGRICULTURE,

THE DISTURBING SHIFT OF ACREAGE FROM JUTE TO RICE CONTINUED. ESTIMATES OF RICE PRODUCTION WERE ENCOURAGING BUT WITH MUCH OF YIELD GOING TO MEET ON-FARM SUBSISTENCE REQUIREMENTS, THERE IS NO ADEQUATE SURPLUS, GOVERNMENT PROCUREMENT PROGRAM, OR MARKETING SYSTEM TO HELP MEET THE PERCEIVED RATION SHOP REQUIREMENT. THUS BDG ONCE AGAIN HAS RESORTED TO MASSIVE COMMERCIAL PURCHASES OF FOOD-GRAINS ABROAD, RESULTING IN A SHARP DRAWDOWN OF FOREIGN EXCHANGE RESERVES AND RESTRICTIONS OF NONFOOD IMPORTS. THESE RESTRICTIONS HAVE INHIBITED ECONOMIC RECOVERY AND SERIOUSLY CUT BACK REVENUE FROM THE TWO MAIN SOURCES, CUSTOMS AND EXCISE.

5. CONSEQUENTLY, BDG IS ENGAGING ONCE MORE IN CONSIDERABLE DEFICIT FINANCING. MONEY SUPPLY HAS CONTINUED TO EXPAND, AND SERIOUS INFLATION PERSISTS. EXPORTS HAVE BEEN AFFECTED BY PRODUCTION SHORTFALLS AND INADEQUATE INLAND AND OCEAN SHIPPING. THE HEAVY OUTLAYS FOR FOOD IMPORTS AND INADEQUATE EXPORT EARNINGS HAVE RESULTED IN A FOREIGN EXCHANGE CRISIS. RESERVES SLIPPED TO BELOW THE \$60 MILLION EQUIVALENT REQUIRED TO BACK LOCAL CURRENCY, AND THE OPENING OF NEW LETTERS OF CREDIT FOR CASH IMPORTS WERE FROZEN. IMF CAN THROUGH WITH A \$40 MILLION EQUIVALENT STANDBY, BUT FREE FOREIGN EXCHANGE IS SO SHORT THAT IMPORT POLICY FOR SHIPPING PERIOD JULY-DECEMBER STILL HAS NOT BEEN ANNOUNCED.

6. THE GRIM ECONOMIC SITUATION HAS OBLIGED BDG TO MOVE TOWARD CERTAIN REFORMS. IN SEEKING IMF STANDBY, BDG COMMITTED ITSELF TO LIMIT PRICE INCREASES IN FY75 TO 8 TO 10 PERCENT BUT ACHIEVING GOAL IS EXTREMELY DOUBTFUL GIVEN PAST YEAR'S 40 PERCENT INFLATION. GOVERNMENT SIMULTANEOUSLY AGREED TO INCREASE TAXES WHICH WILL LEAD INEVITABLY TO PRICE INCREASES. TAX INCREASES FORMULATED IN FY 1975 ARE REGRESSIVE IN THE EXTREME. BDG ALSO WILL REVIEW PRICING POLICY FOR PUBLIC SECTOR OUTPUT, NOW SELLING WELL UNDER COST. ALTHOUGH IT HAS AGREED TO CUT FURTHER SUBSIDIES BEYOND THOSE ALREADY IMPLEMENTED ON RATIONED FOODSTUFFS, FERTILIZERS AND PESTICIDES, SUBSIDIES FOR JUTE MILLS AND OTHER EXPORT INDUSTRIES ARE CONFIDENTIAL

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TO CONTINUE. THESE SUBSIDIES MAY HELP EXPORT SALES BUT CONSTITUTE SURROGATE FOR DEVALUATION OF OVERPRICED TAKA. BDG STRONGLY OPPOSES DEVALUATION, YIELDING TO IMF ONLY IN AGREEING TO KEEP EXCHANGE RATE POLICY UNDER REVIEW. RAISING OF CENTRAL BANK DISCOUNT RATE, ANOTHER REFORM URGENTLY NEEDED, MAY ALSO LEAD TO PRICE INCREASES. BECAUSE OF CONFLICTING OBJECTIVES, BDG IN FY75 BUDGET UPPED TAXES BY TK 89 CRORE, NOT TK 100 AS EARLIER

INDICATED TO IMF; BANK RATE INCREASE HAS BEEN FROM 5 TO 8 PERCENT, NOT TO 10 PERCENT.

7. FOREIGN AFFAIRS. BDG WAS EXTREMELY ACTIVE DIPLOMATICALLY IN THE PAST QUARTER, ARRIVING AT ANOTHER DELHI AGREEMENT, SUCCESSFULLY SHEPHERDING ITS UN MEMBERSHIP THROUGH THE SECURITY COUNCIL, AND ALTERNATING VISITS BY FOREIGN DIGNITARIES WITH TRIPS ABROAD BY RANKING MEMBERS OF GOVERNMENT, PRINCIPALLY IN SEARCH OF ECONOMIC ASSISTANCE.

8. KAMAL HOSSAIN, IN ADDRESS TO PARLIAMENT JUNE 12, ATTRIBUTED SC'S UNANIMOUS DECISION ON BANGLADESH'S UN MEMBERSHIP TO PERSONAL DIPLOMACY OF PRIME MINISTER MUJIB. THE REACTION IN DACCA WAS SIMILAR TO THAT WHICH GREETED THE DECISION TO CALL OF THE POW WAR CRIMES TRIAL: LOW KEY AND DIFFUSE (REF H). ALTHOUGH LOCAL PRESS PLAYED UP ENTHUSIASTIC RESPONSE OF THE PEOPLE, FEW TALK ABOUT THE SUBJECT OR CONSIDER THAT IT WILL MAKE MUCH DIFFERENCE IN BANGLADESH'S INTERNAL CONDITION, THEIR MAJOR PREOCCUPATION. THE DECISION COMES AS AN ANTICLIMAX; AFTER TWO YEARS OF ECONOMIC HARDSHIP, BENGALLEES ARE NO LONGER THRILLED BY FOREIGN TRIUMPHS.

9. THE MAIN CONCRETE RESULT OF MUJIB'S TRIP TO INDIA WAS THE BORDER ENCLAVE SETTLEMENT, WHICH AROUSED THE IRE OF THE OPPOSITION, PARTICULARLY MAULANA BHASHANI, WHO CONDEMNED THE CESSION OF BERUBARI, BUT LITTLE PUBLIC CONCERN IS EVIDENT. LEGAL CHALLENGE FILED BY A DACCA ADVOCATE AS A PERSONAL GESTURE IS NOW BEFORE APPELLATE DIVISION OF SUPREME COURT. THE ATTORNEY GENERAL INFORMS US HE EXPECTS COURT TO SUSTAIN BDG'S RIGHT TO CEDE TERRITORY.

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10. FOREIGN MINISTER KAMAL HOSSAIN VISITED PRAGUE AND STOCKHOLM, MOSCOW, IRAN AND GULF STATES AND IS NOW PLANNING A SEPTEMBER TOUR OF WESTERN EUROPE. THE COMMUNIQUE ENDING THE MOSCOW VISIT WAS UNEXCEPTIONABLE, OF MOST INTEREST FOR WHAT IT DID NOT SAY. THE SOVIETS MADE NO NEW ECONOMIC COMMITMENTS TO BANGLADESH, AGREEING

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